

# Skill Games and Competitions

## Brief description of the industry

MERCHANTS classified as Skill Game, normally require a level of skill by the participant, of which under normal circumstances, monetary or product prizes may be offered to the winner after completing the game and no monetary refunds are usually offered. Skill Game does not involve in placement of bet or wager. As a rule, games that rely on skill, judgement or knowledge (where the element of chance is not significant) are usually to be permitted to operate free of any regulatory control. However, certain skill games might need a license in certain jurisdictions, such as Fantasy Sports in Malta.

For **Fantasy Sports** in/ or from Malta, and for UK based Fantasy Football leagues (on a case by case basis) and UK social gaming operators (on a case by case basis), regulatory control may apply. In such cases, a license must be provided by the prospect and where the license cannot be provided, Underwriting may escalate the matter with Legal.

## Prize Competition and Free Draws

Prize competition is one where success depends on the exercise of skill, judgement or knowledge by the participants, and does not rely wholly on a chance. Participants are required to pay a competition fee by example solving a puzzle or questions (a game of skill, judgement or knowledge), and successfully complete answers are subsequently entering a free draw to pick the winner. There are two types of free draw. The first is where all entries are free, and the second is where there is both a paid and free entry route (usually via post) offered to participants. This model is defined as the genuine prize competition model and is generally free of statutory control.

In cases where the applicant does NOT offer a free entry route and/or the games offered are not a test of skill, judgement or knowledge, but a game of chance, the draw can be defined as lottery, and a license might be applicable. Such cases will be escalated to Legal, especially in cases where there is doubt that the merchant falls into the genuine prize model. Legal may request a legal opinion or further clarifications and/or a declaration on the unregulated status of the applicant.

## Conditions applicable for Competitions with Free Draws

This sector is considered as high risk and is currently unregulated, and as such it comes with a higher degree of risk from fraud and other losses. Models where the payment is taken to enter into the draw, falls under raffles/lottery, which is regulated as gambling, so license is required.

- MCC: 7994



# Skill Games and Competitions

## Document submission requirements

The following documents are required in order to facilitate the opening of a merchant services account. These are in addition to the normal KYC & KYB Requirements:

### Established Businesses:

Source of Funds, the business must provide one of the following to show they are generating healthy revenue streams. If they are not capable of providing one of the following two points, then we must treat the merchant as Newly Incorporated:

- 2 Years positive filed Company accounts, Loss making or Dormant accounts, refer to Newly Incorporated / yet to trade requirements.
- 6 months processing history.

### Newly Incorporated / yet to trade:

Source of wealth, the merchant must clearly demonstrate through evidence how they gained capital to fund the business. Documentation provided by the merchant confirming Source of wealth must cover the following points:

- Initial setup of the business.
- Running the business prior to generating capital.
- Prizes to be offered (SOW must clearly demonstrate within reason that the merchant can afford the prizes on offer at launch of their business).

### Source of Wealth

When conducting due diligence, taking the view on the AML risk based around the sector, we will require SOW evidence showing source of funds used to open the business and purchase the prizes on offer.

As part of the Risk Based Approach, the underwriter's discretion is always encouraged that if they are suspicious of any financial crime being committed then additional information may be requested irrespective of value of goods and if applicable remains suspicious files a Suspicious Report with the MLRO.



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## About the Prize

It is sensible practice that all prizes are purchased prior to the competition taking place, however, we need to accept the fact that this is not possible for all types of prizes offered. If the prizes are yet to be purchase by the merchant, this should clearly be placed on the website.

- Prize value higher than £ 50,000 should be escalated and approved by Head of Risk.
- A clear description of all goods offered as prizes must be provided.
- Motor Vehicles must have in-depth descriptions including:
  - Mileage.
  - Service History (if available).
  - Whether or not Road Legal.
  - Whether valid or not MOT (It is not for us to insist vehicles are road legal etc. but the ticket buyer must be informed of the motor vehicles current state).
- We should accept Cash Prizes/Pre-Paid Cards, with the provision of evidence that the funds are available to cover the prize.
- Newly Incorporated entities will need to provide the following:
  - Business Bank Statement to evidence the funds are available for the prize, this will form part of the SOW requirements.
  - Money based prizes with a value of > £5000 and above must be referred to your line manager for approval (Line manager may use their discretion to request Compliance Team input/sign off).
  - Destination Holidays / short breaks will be considered on a case by case basis:
    - Fulfilment times will need further scrutiny.
    - Agreements/3rd party contracts with Travels agents If applicable, any other information required, determined by Underwriting and/or Risk.
- Experience Days:
  - Expiry dates do apply to this type of prize; therefore, it is accepted the prize can be purchased after the prize draw.
- We will consider house raffles. The merchant will need to provide evidence of SOW as well as proof of ownership of the house.
- No event tickets (football/sports/music etc.).



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## Website Requirements

The following points must be on the website, a letter from the merchant agreeing to these points must also be provided:

- Game of skill - for entrants to qualify, they are required to perform a game of skill. Though not an exhaustive list, examples of this are, Questions or Spot the Ball. This must be difficult enough to prevent every participant from entering the draw and not so difficult as to prevent a significant proportion of persons to participate in the draw.
- If a game of skill is not within the business model, then the merchant must display free entry route on each competition, this must be clear and prominent, details of free entry route must be specified within the Terms & Conditions.
- The website must display amount of tickets left for each competition.
- The website must display free entry route on each competition, this must be clear and displayed prominently, details of free entry route must also be specified within the Terms & Conditions.

**Terms and conditions must incorporate the following information:**

- How the prize draw is going to be carried out.
- What the selection process used to select winner (Number generator/guest panel etc.).
- What will happen if a competition does not reach the minimum required ticket sales? Cash price alternative, we recommend it must be no less than 70%, must not say UP TO % of the prize fund, this value must be fixed.
- Competition extensions, there must be a set limit for extensions (We recommend that this is set to the Industry standard of 4 extensions).
- Previous winners must be advertised on the website.
- Each Competition must have a set draw date, this must be clearly displayed.
- Entrants must be residents of the United Kingdom or Ireland, and must be aged 18 years or over at the time of entry.

**No Subscription should be allowed.**



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Merchant Services

# Skill Games and Competitions

## Geographic Restrictions / BIN Blocks applicable

Allow UK & Ireland only. Where the merchant is located outside this jurisdiction, legal opinion should be sought which should include:

1. The business model proposed is legal.
2. The business requires no regulation or licensing in the targeted markets/jurisdictions.
3. The solicitor must be able to be verified as qualified solicitor by Legal Department.

**US to be blocked as standard.**

## Risk Mitigation

- We reserve the right to implement transactions caps on transactions for companies without processing history to mitigate our risk. Recommend a transaction cap of £100 as standard.
- We reserve the right to place and utilise the On-Hold feature to restrict remittance payments to all new onboarded merchants regardless of experience within the sector to mitigate our risk, this will be under constant review.

Terms set should be based on the assessment, we recommend the following as minimum but open to the underwriter's discretion:

- Rolling Reserve: Underwriters discretion (Usually 0% if no concerns).
- Weekly Settlement days.
- Funding Delay: 2 days.
- 3D Secure mandatory.
- MOTO not supported.

Where a merchant is new, the following terms are applicable:

- 10% Rolling Reserve.
- Weekly Settlement days.
- 7 days funding delay days.
- 3D Secure mandatory.
- MOTO not supported.

Where the merchant is looking to use us to process payments for house raffles:

- Funds will be held until after the draw and the merchant has provided us with evidence from a lawyer that the transfer of ownership of the house has taken place. This is non-negotiable.



Merchant Services

# Skill Games and Competitions

## Conditions applicable for Skill Games

- MCC 7994.
- Merchant Registration Progress (MRP) registration is only applicable if Merchant will accept payments from US – USD 500 or any equivalent.
- Age verification required – Participants 18+.
- Subscription acceptable.
- ATV capped at £100 (or any other currency equivalent).
- Prize/rewards may be in points or gifts. In case the Prize is Monetary the following documentation should be requested:
  - a) Source of Wealth for the Beneficial Owners (over 25% of Ownership) of the Merchant and
  - b) Source of Funds for the cash prize(s), to be provided to U/W at the onboarding stage.
- 3D Secure mandatory.
- MOTO not supported.

## Geographic Restrictions / BIN Blocks applicable

- If merchant does not accept payments from US – Block BIN for US.

## Risk Mitigation

If the merchant offers a subscription-based service, the below is mandatory:

- 10% Rolling Reserve.
- Weekly Settlement days.
- 7 days funding delay days.
- In the exceptional circumstances Head of Risk approves a Merchant offering one-off competition, monthly settlement days is applicable, and subject to winner verification (**this is not negotiable**).

